

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

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Lineville-Clio Community School District

Officials

Name

Title

Board of Education
(Before September 2007 election)

David Brennecke	President	2009
Loris Nickell	Vice President	2007
Judy Shields	Board Member	2007
Virginia Clow	Board Member	2008
Cherlyn Hullinger	Board Member	2008

Board of Education
(After September 2007 election)

David Brennecke	President	2009
Cherlyn Hullinger	Vice President	2008
Judy Shields	Board Member	2010
Virginia Clow	Board Member	2008
Jose Moreno	Board Member	2010

School Officials

Bill Casey	Superintendent	2008
Cheryl Porter	Treasurer/ District Secretary/ and Business Manager	2008
Monty Franklin	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District, Lineville-Clio Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Lineville-Clio Community School District at June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2009 on our consideration of the Lineville-Clio Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lineville-Clio Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lineville-Clio Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,581,985 in fiscal 2007 to \$1,880,830 in fiscal 2008, while General Fund expenditures increased from \$1,660,685 in fiscal 2007 to \$1,866,163 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$54,885 in fiscal 2007 to \$69,552 in fiscal 2008, a 26.72% increase over the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2008. The increase in expenditures was due primarily to increase expenses tied to the federal grant.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lineville-Clio Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lineville-Clio Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lineville-Clio Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Lineville-Clio Community School District Annual Financial Report

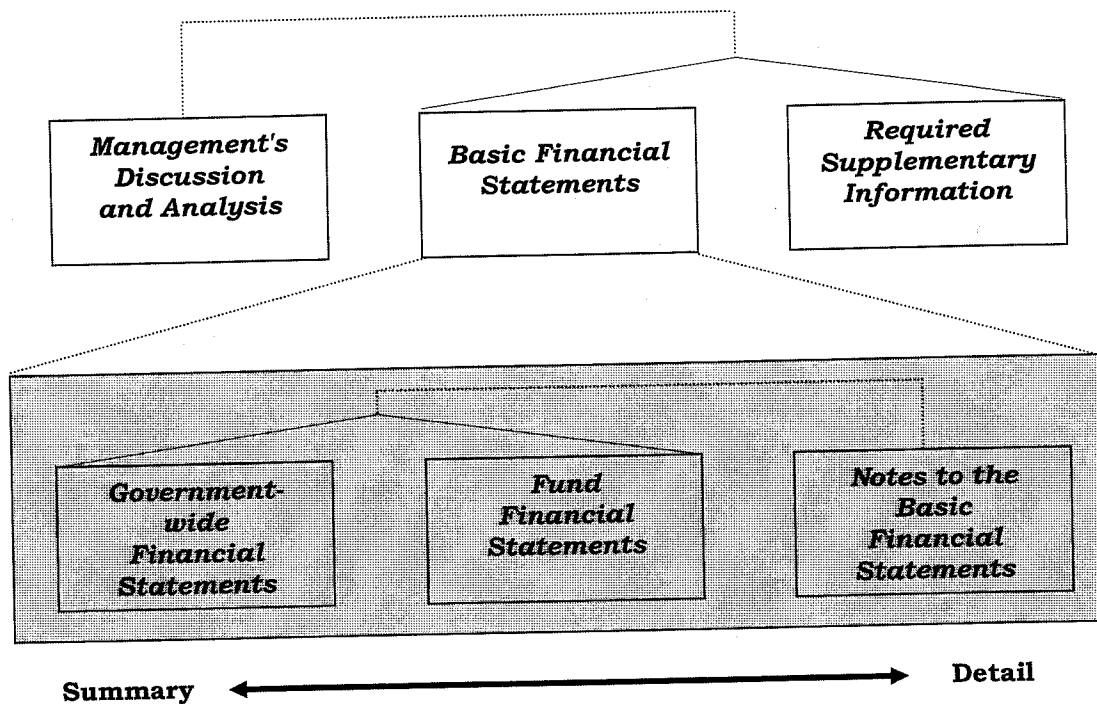


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provides more detail and additional information such as cash flows. The District currently has one internal service fund, the Health Insurance Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 1,464,458	1,107,978	671	3,411	1,465,129	1,111,389	31.83%
Capital assets	924,995	953,329	939	1,157	925,934	954,486	-2.99%
Total assets	2,389,453	2,061,307	1,610	4,568	2,391,063	2,065,875	15.74%
Long-term obligations	813,347	861,774	0	0	813,347	861,774	-5.62%
Other liabilities	1,208,194	881,188	7,432	5,358	1,215,626	886,546	37.12%
Total liabilities	2,021,541	1,742,962	7,432	5,358	2,028,973	1,748,320	16.05%
Net assets:							
Invested in capital assets, net of related debt	111,648	91,555	939	1,157	112,587	92,712	21.44%
Restricted	197,621	158,122	0	0	197,621	158,122	24.98%
Unrestricted	58,643	68,668	(6,761)	(1,947)	51,882	66,721	-22.24%
Total net assets	\$ 367,912	318,345	(5,822)	(790)	362,090	317,555	14.02%

The District's combined net assets increased by 14.02%, or \$44,535 over the prior year. The largest portion of the District's net assets is the invested in capital assets less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$39,499, or 24.98% over the prior year. The increase was primarily a result of reclassifying the Capital Projects Fund balance.

Unrestricted net assets – are the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$14,839, or 22.24%. This decrease in unrestricted net assets was a result of the deficit balance in the Debt Service Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 68,336	84,631	25,507	22,653	93,843	107,284	-12.53%
Operating grants and contributions and restricted interest	1,120,752	870,743	30,180	32,625	1,150,932	903,368	27.40%
General revenues:							
Property tax	420,871	433,667	0	0	420,871	433,667	-2.95%
Income surtax	22,081	25,230	0	0	22,081	25,230	-12.48%
Local option sales and services tax	34,819	49,855	0	0	34,819	49,855	-30.16%
Unrestricted state grants	357,191	266,493	0	0	357,191	266,493	34.03%
Unrestricted investment earnings	26,013	21,988	2	68	26,015	22,056	17.95%
Other general revenues	24,440	13,024	0	0	24,440	13,024	87.65%
Total revenues	\$ 2,074,503	1,765,631	55,689	55,346	2,130,192	1,820,977	16.98%
Program expenses:							
Governmental activities:							
Instruction	\$ 799,373	740,925	0	0	799,373	740,925	7.89%
Support services	636,297	627,384	1,481	341	637,778	627,725	1.60%
Non-instructional programs	500,038	342,048	59,240	51,522	559,278	393,570	42.10%
Other expenses	89,228	86,234	0	0	89,228	86,234	3.47%
Total expenses	2,024,936	1,796,591	60,721	51,863	2,085,657	1,848,454	12.83%
Change in net assets	49,567	(30,960)	(5,032)	3,483	44,535	(27,477)	262.08%
Beginning net assets	318,345	349,305	(790)	(4,273)	317,555	345,032	-7.96%
Ending net assets	\$ 367,912	318,345	(5,822)	(790)	362,090	317,555	14.02%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 40.25% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.99% of the revenue and transfers from business-type activities.

The District's total revenues were \$2,130,192 of which \$2,074,503 was for governmental activities and \$55,689 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 16.98% increase in revenues and a 12.83% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$2,074,503 and expenses were \$2,024,936.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 799,373	704,613	13.45%	407,089	282,554	44.07%
Support services	636,297	735,440	-13.48%	370,660	735,440	-49.60%
Non-instructional programs	500,038	395,183	26.53%	0	(290,980)	100.00%
Other expenses	89,228	86,327	3.36%	58,099	57,535	0.98%
Totals	<u>\$ 2,024,936</u>	<u>1,921,563</u>	<u>5.38%</u>	<u>835,848</u>	<u>784,549</u>	<u>6.54%</u>

- The cost financed by users of the District's programs was \$68,336.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,120,752.
- The net cost of governmental activities was financed with \$420,872 in property tax, \$22,081 in income surtax, \$34,819 in local option sales and services tax, \$357,191 in unrestricted state grants, \$26,013 in unrestricted investment earnings and \$24,440 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$55,689 and expenses were \$60,721. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lineville-Clio Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$239,848 over last year's ending fund balances of \$208,615. However, the primary reason for the increase in combined fund balances in fiscal 2008 is due to the increase in the General Fund balance.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the product of many factors. Growth during the year in federal grants resulted in an increase in revenues. The increase in District's expenditures was due to increases in negotiated salaries and benefits which were increased by expenses tied to the federal award received during the year, resulting with an increase in expenditures. The District had more revenues than expenditures causing the General Fund balance to increase by \$14,667.
- The Capital Projects Fund balance increased from \$61,923 at June 30, 2007 to \$87,121 at June 30, 2008. This increase was due in part to the local option sales and services tax received during the fiscal year was less than the debt payment transfers.
- The Debt Service Fund balance decreased from \$1,008 at June 30, 2007 to a deficit balance of \$20,244 at June 30, 2008. This decrease was due to the Capital Projects Fund having insufficient sales and local option services tax to provide debt relief in assisting with the repayment of the General Obligation Bonds.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from a deficit of \$790 at June 30, 2007 to a deficit of \$5,822 at June 30, 2008, representing a decrease of 636.96%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$209,195 less than budgeted revenues, a variance of 8.94%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$925,934, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.99% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$39,552.

The original cost of the District's capital assets was \$1,118,852. Governmental funds account for \$1,115,530 with the remainder of \$3,322 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$865,393 at June 30, 2008, compared to \$884,206 reported at June 30, 2007. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Buildings							
Machinery and equipment	\$ 865,393	884,206	0	0	865,393	884,206	-2.13%
Total	59,602	69,123	939	1,157	60,541	70,280	-13.86%
	\$ 924,995	953,329	939	1,157	925,934	954,486	-2.99%

Long Term Debt

At year-end, the District had \$813,347 in general obligation and other long-term debt outstanding. This represents a decrease of 5.62%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 795,000	835,000	-4.79%
Bus lease	18,347	26,774	-31.47%
Totals	<u>\$ 813,347</u>	<u>861,774</u>	<u>-5.62%</u>

The District had \$795,000 in general obligation bonds outstanding at June 30, 2008.

The District had bus lease payable of \$18,347 at June 30, 2008 payable from the Special Revenue, Physical Plant and Equipment Levy.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of this existing circumstance that could significantly affect its financial health in the future:

- The District's enrollment certified to the Department of Education in October 2007 was overstated by 1 student. Future state foundation aid payments will be reduced.
- The District has experienced declining enrollment the past several years and expects that trend to continue.
- As a result of declining enrollment, property taxes will be raised to fund a greater share of regular program costs.
- The District will continue receiving the Safe Schools/Healthy Students grant. This grant will generate additional revenues and expenses for the next fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cheryl Porter, Board Secretary, Lineville-Clio Community School District, 200 W 6th St, Lineville, Iowa, 50147.

BASIC FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP (Note 5)	\$ 606,729	0	606,729
Other	324,550	0	324,550
Receivables:			
Property tax:			
Delinquent	7,024	0	7,024
Succeeding year	433,691	0	433,691
Income surtax	19,541	0	19,541
Accounts	5,138	0	5,138
Accrued ISCAP interest (Note 5)	3,748	0	3,748
Due from other governments	64,037	39	64,076
Inventories	0	632	632
Capital assets, net of accumulated depreciation (Note 6)	924,995	939	925,934
TOTAL ASSETS	2,389,453	1,610	2,391,063
LIABILITIES			
Excess of warrants issued over bank balance	0	1,473	1,473
Accounts payable	38,084	0	38,084
Salaries and benefits payable	118,124	5,898	124,022
Interest payable	3,125	0	3,125
ISCAP warrants payable (Note 5)	603,000	0	603,000
ISCAP accrued interest payable (Note 5)	4,049	0	4,049
ISCAP unamortized premium	7,511	0	7,511
Deferred revenue:			
Succeeding year property tax	433,691	0	433,691
Other	610	0	610
Unearned revenue	0	61	61
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	40,000	0	40,000
Bus lease payable	8,915	0	8,915
Portion due after one year:			
General obligation bonds payable	755,000	0	755,000
Bus lease payable	9,432	0	9,432
TOTAL LIABILITIES	2,021,541	7,432	2,028,973
NET ASSETS			
Invested in capital assets, net of related debt	111,648	939	112,587
Restricted for:			
Beginning teacher mentoring	504	0	504
Market factor incentives	965	0	965
Market factor	960	0	960
Beginning administrator mentoring program	366	0	366
Professional development	4,286	0	4,286
Capital projects	87,121	0	87,121
Management levy	20,960	0	20,960
Physical plant and equipment levy	59,279	0	59,279
Other special revenue purposes	23,180	0	23,180
Unrestricted	58,643	(6,761)	51,882
TOTAL NET ASSETS	\$ 367,912	(5,822)	362,090

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 519,672	21,096	318,782	(179,794)	0	(179,794)
Special instruction	86,048	0	5,166	(80,882)	0	(80,882)
Other instruction	193,653	47,240	0	(146,413)	0	(146,413)
	<u>799,373</u>	<u>68,336</u>	<u>323,948</u>	<u>(407,089)</u>	<u>0</u>	<u>(407,089)</u>
Support services:						
Student services	69,821	0	13,074	(56,747)	0	(56,747)
Instructional staff services	12,990	0	10,890	(2,100)	0	(2,100)
Administration services	399,068	0	235,569	(163,499)	0	(163,499)
Operation and maintenance of plant services	107,147	0	0	(107,147)	0	(107,147)
Transportation services	47,271	0	6,104	(41,167)	0	(41,167)
	<u>636,297</u>	<u>0</u>	<u>265,637</u>	<u>(370,660)</u>	<u>0</u>	<u>(370,660)</u>
Non-instructional programs:						
Community service operations	500,038	0	500,038	0	0	0
Other expenditures:						
Interest and fiscal charges	37,578	0	0	(37,578)	0	(37,578)
AEA flowthrough	31,129	0	31,129	0	0	0
Depreciation(unallocated)*	20,521	0	0	(20,521)	0	(20,521)
	<u>89,228</u>	<u>0</u>	<u>31,129</u>	<u>(58,099)</u>	<u>0</u>	<u>(58,099)</u>
Total governmental activities	<u>2,024,936</u>	<u>68,336</u>	<u>1,120,752</u>	<u>(835,848)</u>	<u>0</u>	<u>(835,848)</u>
Business-Type activities:						
Support services:						
Administrative services	1,145	1,145	0	0	0	0
Operation and maintenance of plant services	336	336	0	0	0	0
Total administrative services	<u>1,481</u>	<u>1,481</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Non-instructional programs:						
Food service operations	59,240	24,026	30,180	0	(5,034)	(5,034)
Total business-type activities	<u>60,721</u>	<u>25,507</u>	<u>30,180</u>	<u>0</u>	<u>(5,034)</u>	<u>(5,034)</u>
Total	<u>\$ 2,085,657</u>	<u>93,843</u>	<u>1,150,932</u>	<u>(835,848)</u>	<u>(5,034)</u>	<u>(840,882)</u>
General Revenues:						
Property tax for:						
General purposes				\$ 367,894	0	367,894
Capital outlay				28,003	0	28,003
Debt service				24,974	0	24,974
Income surtax				22,081	0	22,081
Local option sales and services tax				34,819	0	34,819
Unrestricted state grants				357,191	0	357,191
Unrestricted investment earnings				26,013	2	26,015
Other general revenue				24,440	0	24,440
Total general revenues				<u>885,415</u>	<u>2</u>	<u>885,417</u>
Changes in net assets				49,567	(5,032)	44,535
Net assets beginning of year				318,345	(790)	317,555
Net assets end of year				<u>\$ 367,912</u>	<u>(5,822)</u>	<u>362,090</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 606,729	0	606,729
Other	161,779	162,771	324,550
Receivables:			
Property tax:			
Delinquent	5,718	1,306	7,024
Succeeding year	357,863	75,828	433,691
Income surtax	19,541	0	19,541
Interfund	0	3,000	3,000
Accounts	4,838	300	5,138
Accrued ISCAP interest(Note 5)	3,748	0	3,748
Due from other governments	39,404	24,633	64,037
TOTAL ASSETS	\$ 1,199,620	267,838	1,467,458
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 3,000	0	3,000
Accounts payable	16,370	21,714	38,084
Salaries and benefits payable	118,124	0	118,124
ISCAP warrants payable(Note 5)	603,000	0	603,000
ISCAP accrued interest payable(Note 5)	4,049	0	4,049
ISCAP unamortized premium	7,511	0	7,511
Deferred revenue:			
Succeeding year property tax	357,863	75,828	433,691
Income surtax	19,541	0	19,541
Other	610	0	610
Total liabilities	1,130,068	97,542	1,227,610
Fund balances:			
Reserved for:			
Beginning teacher mentoring	504	0	504
Market factor incentives	965	0	965
Market factor	960	0	960
Beginning administrator mentoring program	366	0	366
Professional development	4,286	0	4,286
Unreserved:			
General	62,471	0	62,471
Capital projects	0	87,121	87,121
Management levy	0	20,960	20,960
Debt service	0	(20,244)	(20,244)
Physical plant and equipment levy	0	59,279	59,279
Other special revenue purposes	0	23,180	23,180
Total fund balances	69,552	170,296	239,848
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,199,620	267,838	1,467,458

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 239,848
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	924,995
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	19,541
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,125)
Long-term liabilities, including general obligation bonds payable and bus lease payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(813,347)
Net assets of governmental activities (page 13)	<u><u>\$ 367,912</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 366,711	113,038	479,749
Tuition	18,623	0	18,623
Other	35,497	63,425	98,922
State sources	605,645	19,189	624,834
Federal sources	853,110	0	853,110
Total revenues	1,879,586	195,652	2,075,238
Expenditures:			
Current:			
Instruction:			
Regular instruction	517,936	1,736	519,672
Special instruction	86,048	0	86,048
Other instruction	137,826	55,827	193,653
	741,810	57,563	799,373
Support services:			
Student services	69,821	0	69,821
Instructional staff services	12,251	0	12,251
Administration services	378,932	18,590	397,522
Operation and maintenance of plant services	95,147	12,000	107,147
Transportation services	37,035	4,708	41,743
	593,186	35,298	628,484
Non-instructional programs:			
Community service operations	500,038	0	500,038
Other expenditures:			
Long-term debt:			
Principal	0	48,427	48,427
Interest and fiscal charges	0	37,798	37,798
AEA flowthrough	31,129	0	31,129
	31,129	86,225	117,354
Total expenditures	1,866,163	179,086	2,045,249
Excess of revenues over expenditures	13,423	16,566	29,989
Other financing sources(uses):			
Proceeds from the disposal of property	1,244	0	1,244
Transfers in	0	39,978	39,978
Transfers out	0	(39,978)	(39,978)
Total other financing sources(uses)	1,244	0	1,244
Net change in fund balances	14,667	16,566	31,233
Fund balance beginning of year	54,885	153,730	208,615
Fund balance end of year	\$ 69,552	170,296	239,848

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds(page 17) \$ 31,233

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 11,000	
Depreciation expense	(39,334)	(28,334)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (1,978)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 219

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

48,427

Changes in net assets of governmental activities(page 14)

\$ 49,567

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2008

	<u>School Nutrition</u>
Assets	
Due from other governments	39
Inventories	632
Capital assets, net of accumulated depreciation (Note 5)	939
Total assets	<u>1,610</u>
Liabilities	
Excess of warrants issued over bank balance	1,473
Salaries and benefits payable	5,898
Unearned revenue	61
Total liabilities	<u>7,432</u>
Net Assets	
Invested in capital assets	939
Unrestricted	(6,761)
Total net assets	<u>\$ (5,822)</u>

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 25,507
Total operating revenues	<u>25,507</u>
Operating expenses:	
Support services:	
Administrative	
Services	1,145
Operation and maintenance of plant	
services	336
Total Support services	<u>1,481</u>
Non-instructional programs:	
Food service operations:	
Salaries	21,576
Benefits	10,570
Services	221
Supplies	26,655
Depreciation	218
Total non-instructional programs	<u>59,240</u>
Total operating expenses	<u>60,721</u>
Operating loss	<u>(35,214)</u>
Non-operating revenues:	
State sources	553
Federal sources	29,627
Interest income	2
Total non-operating revenues	<u>30,182</u>
Change in net assets	(5,032)
Net assets beginning of year	<u>(790)</u>
Net assets end of year	<u>\$ (5,822)</u>

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 25,639
Cash payments to employees for services	(26,636)
Cash payments to suppliers for goods or services	(23,925)
Net cash used in operating activities	<u>(24,922)</u>
Cash flows from non-capital financing activities:	
State grants received	553
Federal grants received	27,864
Net cash provided by non-capital financing activities	<u>28,417</u>
Cash flows from investing activities:	
Interest on investments	<u>2</u>
Net increase in cash and cash equivalents	3,497
Cash and cash equivalents at beginning of year	<u>(4,970)</u>
Cash and cash equivalents at end of year	<u><u>\$ (1,473)</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (35,214)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,470
Depreciation	218
Increase in inventories	(38)
Decrease in accounts receivable	71
Increase in salaries and benefits payable	5,510
Increase in unearned revenue	61
Net cash used in operating activities	<u><u>\$ (24,922)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ (1,473)</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$4,470.

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Lineville-Clio Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Lineville and Clio, Iowa, and the predominate agricultural territory in Wayne and Decatur Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lineville-Clio Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lineville-Clio Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne and Decatur Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the District's Non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other funds are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus

and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-12 years

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Amount
Buildings	\$ 5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The

lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible banker's acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the district had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 119,067</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds(funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities

longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant & Equipment Levy	\$ 9,978
Debt Service	Capital Projects	30,000
Total		<u>\$ 39,978</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Interfund Receivables and Payables

The detail of the interfund receivables and payables at June 30, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
Nutrition Fund	General Fund	<u>\$ 3,000</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/08	1/21/09	\$ 240,770	3,609	240,000	3,910
2008-09A	6/26/08	6/25/09	365,959	139	363,000	139
Total			<u>\$ 606,729</u>	<u>3,748</u>	<u>603,000</u>	<u>4,049</u>

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the district must repay the outstanding withdrawal from its General Fund receipts. In addition, the district must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	50,000	50,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 3,322	0	0	3,322
Less accumulated depreciation	2,165	218	0	2,383
Business-type activities capital assets, net	\$ 1,157	(218)	0	939

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 940,645	0	0	940,645
Machinery and equipment	163,885	11,000	0	174,885
Total capital assets being depreciated	1,104,530	11,000	0	1,115,530
Less accumulated depreciation for:				
Buildings	56,439	18,813	0	75,252
Machinery and equipment	94,762	20,521	0	115,283
Total accumulated depreciation	151,201	39,334	0	190,535
Governmental activities capital assets, net	\$ 953,329	(28,334)	0	924,995

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Student services	\$ 739
Administration	1,546
Transportation	14,507
Unallocated depreciation	20,782
Total governmental activities depreciation expense	\$ 39,334
Business-type activities:	
Food services	\$ 218

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 835,000	0	40,000	795,000	40,000
Bus lease	26,774	0	8,427	18,347	8,915
Total	\$ 861,774	0	48,427	813,347	48,915

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 1, 2003			
	Interest Rates	Principal	Interest	Total
2009	4.00 %	\$ 40,000	34,847	74,847
2010	4.00	40,000	33,248	73,248
2011	4.00	45,000	31,647	76,647
2012	4.00	45,000	29,847	74,847
2013	4.00	45,000	28,048	73,048
2014-2018	4.10-4.50	260,000	110,018	370,018
2019-2023	4.60-4.80	320,000	46,655	366,655
Total		\$ 795,000	314,310	1,109,310

Bus Lease Payable

During the year ended June 30, 2007, the District entered into an agreement with Baystone Financial Group for the lease purchase of a school bus. Details of the District's June 30, 2008 bus lease indebtedness is as follows:

Year Ending June 30,	Bus Lease of June 7, 2007			
	Interest Rates	Principal	Interest	Total
2009	5.63 %	\$ 8,915	1,063	9,978
2010	5.63	9,432	546	9,978
Total		\$ 18,347	1,609	19,956

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$53,891, \$51,436, and \$49,588 respectively, equal to the required contributions for each year.

(9) Risk Management

Lineville-Clio Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$31,129 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Net Assets

The School Nutrition Fund had deficit unrestricted net assets of \$6,761 at June 30, 2008. The Debt Service Fund had a deficit fund balance of \$20,244 at June 30, 2008.

(12) Expenditure Over Budget

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 597,295	25,509	622,804	663,908	663,908	(41,104)
State sources	624,833	553	625,386	689,764	689,764	(64,378)
Federal sources	853,110	29,627	882,737	986,450	986,450	(103,713)
Total revenues	2,075,238	55,689	2,130,927	2,340,122	2,340,122	(209,195)
Expenditures:						
Instruction	799,373	0	799,373	833,000	833,000	33,627
Support services	628,484	1,481	629,965	465,000	465,000	(164,965)
Non-instructional programs	500,038	59,240	559,278	849,000	849,000	289,722
Other expenditures	117,354	0	117,354	144,642	144,642	27,288
Total expenditures	2,045,249	60,721	2,105,970	2,291,642	2,291,642	185,672
Excess(deficiency) of revenues over(under) expenditures	29,989	(5,032)	24,957	48,480	48,480	(23,523)
Other financing sources, net	1,244	0	1,244	(51,278)	(51,278)	52,522
Excess(deficiency) of revenues and other financing sources over(under) expenditures	31,233	(5,032)	26,201	(2,798)	(2,798)	28,999
Balance beginning of year	208,615	(790)	207,825	120,910	120,910	86,915
Balance end of year	\$ 239,848	(5,822)	234,026	118,112	118,112	115,914

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Nonmajor Special Revenue Funds						Total
	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Project	Debt Service	Other Nonmajor Governmental Funds
Assets							
Cash and pooled investments	\$ 20,925	20,543	58,807	100,275	62,488	8	162,771
Receivables:							
Property tax:							
Current year delinquent	0	417	472	889	0	417	1,306
Succeeding year	0	22,000	28,828	50,828	0	25,000	75,828
Interfund	3,000	0	0	3,000	0	0	3,000
Accounts	300	0	0	300	0	0	300
Due from other governments	0	0	0	0	24,633	0	24,633
Total assets	\$ 24,225	42,960	88,107	155,292	87,121	25,425	267,838
Liabilities and fund balances:							
Liabilities:							
Accounts payable	\$ 1,045	0	0	1,045	0	20,669	21,714
Deferred revenue:							
Succeeding year property tax	0	22,000	28,828	50,828	0	25,000	75,828
Total liabilities	1,045	22,000	28,828	51,873	0	45,669	97,542
Unreserved fund balances	23,180	20,960	59,279	103,419	87,121	(20,244)	170,296
Total liabilities and fund balances	\$ 24,225	42,960	88,107	155,292	87,121	25,425	267,838

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Nonmajor Special Revenue Funds						Total
		Manage-	Physical	Total			Other
	Student	ment	Plant and	Special	Capital	Debt	Nonmajor
	Activity	Levy	Equipment	Revenue	Project	Service	Governmental
			Levy	Funds			Balance
Revenues:							
Local sources:							
Local tax	\$ 0	25,242	28,003	53,245	34,819	24,974	113,038
Other	47,240	2,934	12,001	62,175	1,248	2	63,425
State sources	0	18	21	39	19,131	19	19,189
Total revenues	47,240	28,194	40,025	115,459	55,198	24,995	195,652
Expenditures:							
Current:							
Instruction:							
Regular instruction	0	0	1,736	1,736	0	0	1,736
Other instruction	55,827	0	0	55,827	0	0	55,827
Support services:							
Administration services	0	18,590	0	18,590	0	0	18,590
Operation and maintenance of plant services	0	0	12,000	12,000	0	0	12,000
Student transportation	0	4,708	0	4,708	0	0	4,708
Other expenditures:							
Long term debt:							
Principal	0	0	0	0	0	48,427	48,427
Interest	0	0	0	0	0	37,798	37,798
Total expenditures	55,827	23,298	13,736	92,861	0	86,225	179,086
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)							
EXPENDITURES	(8,587)	4,896	26,289	22,598	55,198	(61,230)	16,566
OTHER FINANCING SOURCES(USES):							
Transfers In	0	0	0	0	0	39,978	39,978
Transfers Out	0	0	(9,978)	(9,978)	(30,000)	0	(39,978)
Total other financing sources(uses)	0	0	(9,978)	(9,978)	(30,000)	39,978	0
Net change in fund balances	(8,587)	4,896	16,311	12,620	25,198	(21,252)	16,566
Fund balance beginning of year	31,767	16,064	42,968	90,799	61,923	1,008	153,730
Fund balance end of year	\$ 23,180	20,960	59,279	103,419	87,121	(20,244)	170,296

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Cheerleading	\$ 124	0	0	124
SES	158	0	158	0
Drama	470	259	296	433
FCCLA	1,257	49	0	1,306
Science Fundraiser	0	1,110	814	296
Athletics	8,117	6,055	4,990	9,182
Miscellaneous	1,593	2,598	4,191	0
Playground	2,253	4,672	6,925	0
Interest	870	0	870	0
Flower Fund	8	35	43	0
Student Council	268	186	108	346
Nutrition	3,065	165	3,230	0
National Honors Society	620	1,938	2,316	242
Annuals	2,635	4,049	4,949	1,735
Field Trip	854	118	156	816
Class of 2006	131	0	131	0
Class of 2007	200	0	200	0
Class of 2008	2,531	4,253	6,124	660
Class of 2009	1,863	6,661	5,174	3,350
Class of 2010	1,164	2,874	2,080	1,958
Class of 2011	232	83	0	315
Class of 2012	77	96	73	100
Art Club	56	0	56	0
High School Funds	303	4,672	2,708	2,267
Middle School Funds	0	262	212	50
Elementary School Funds	2,918	7,105	10,023	0
Total	\$ 31,767	47,240	55,827	23,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 476,228	505,730	510,460	419,963	363,171
Tuition	18,623	17,784	28,821	38,012	40,703
Other	102,443	108,167	292,647	87,589	86,518
Intermediate sources	0	0	400	1,800	0
State sources	624,834	504,732	495,481	528,347	480,380
Federal sources	853,110	626,141	768,058	74,524	79,929
Total	\$ 2,075,238	1,762,554	2,095,867	1,150,235	1,050,701
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 519,672	555,333	474,169	532,941	543,880
Special instruction	86,048	40,647	83,336	141,501	67,827
Other instruction	193,653	144,945	161,616	141,867	192,309
Support services:					
Student services	69,821	69,975	55,689	13,936	13,574
Instructional staff services	12,251	14,754	13,030	2,784	10,236
Administration services	397,522	372,341	497,234	144,375	121,110
Operation and maintenance of plant services	107,147	127,269	117,711	96,930	141,155
Transportation services	41,743	56,082	33,019	20,156	25,160
Other support services	0	0	0	127	19,360
Non-instructional programs	500,038	342,048	395,183	0	0
Other expenditures:					
Facilities acquisitions	0	651	0	971,552	60,022
Long-term debt:					
Principal	48,427	40,000	35,000	35,000	0
Interest and other charges	37,798	37,848	38,897	40,898	0
AEA flow-through	31,129	29,350	28,792	28,043	29,089
Total	\$ 2,045,249	1,831,243	1,933,676	2,170,110	1,223,722

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 08	\$ 773,100
RURAL EDUCATION ACHIEVEMENT PROGRAM(REAP)	84.358	FY 08	14,279
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	17,699
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	11,889 *
			29,588
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3705-G	23,269
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 08	581
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 08	176
READING FIRST STATE GRANTS	84.357	FY 08	29,618
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 08	5,039
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 07	273
	84.369	FY 08	581
			854

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 08	<u>1,028</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 08	<u>5,166</u>
TOTAL			<u>\$ 882,698</u>

* Includes \$4,470 in non-cash donations.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lineville-Clio Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lineville-Clio Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lineville-Clio Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lineville-Clio Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lineville-Clio Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lineville-Clio Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lineville-Clio Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lineville-Clio Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lineville-Clio Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Lineville-Clio Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lineville-Clio Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2009

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Lineville-Clio Community School District

Compliance

We have audited the compliance of Lineville-Clio Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Lineville-Clio Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Lineville-Clio Community School District's management. Our responsibility is to express an opinion on Lineville-Clio Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lineville-Clio Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lineville-Clio Community School District's compliance with those requirements.

In our opinion, Lineville-Clio Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Lineville-Clio Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lineville-Clio Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

Lineville-Clio Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Lineville-Clio Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2009

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual
 - CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lineville-Clio Community School District did not qualify as a low-risk auditee.

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Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will remain vigilant regarding segregation of duties in the handling of monies. We have only 2 office employees and where possible, we will separate duties.

Conclusion - Response accepted.

- II-B-08 Student Activity Fund-Individuals Receiving Checks - We noted during our audit that checks were written from the Student Activity Fund to cash, instead of the custodian/sponsor of the event.

Recommendation - Checks made out to "Cash" are bearer paper, if they would be lost or stolen, anyone could cash the check. In the future, the District should write the check to the custodian/sponsor who requested it.

Response - Checks will not be made out to "Cash", only to individuals.

Conclusion - Response accepted.

- II-C-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - Payroll procedures will be reviewed and changed where necessary to ensure compliance with the Department of Labor requirements.

Conclusion - Response accepted.

- II-D-08 Recording Indirect Costs - We noted during our audit that the indirect costs associated with a project were being recorded as miscellaneous income. They should be recorded as a negative expense (the only time a negative expense is allowed).

Recommendation - The district should review their procedures concerning recording indirect costs.

Response - Future indirect costs will be recorded as negative expenses, not miscellaneous income.

Conclusion - Response accepted.

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Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program
Federal Award Year: 2008
U.S. Department of Education

III-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will remain vigilant regarding segregation of duties in the handling of monies. We have only 2 office employees and where possible, we will separate duties.

Conclusion - Response accepted.

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Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will properly amend the budget in the future.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. However, we did note two individuals who received a travel allowance and cell phone allowance which were not included on the W-2.

Recommendation - The District should report travel and cell phone allowances with the payroll subjecting it to payroll taxes.

Response - For those employees whose contract include a specific set amount for cell phone and/or travel allowance, that amount will be paid through payroll.

Conclusion - Response accepted.

IV-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Deanna Bremerke, Spouse of David Bremerke, Board President	Mowing Services	\$2,470

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the Board President does not appear to represent a conflict of interest.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-08 Certified Enrollment - We noted during our audit, that the number of basic resident students reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2007 was overstated by 1.0 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will notify the appropriate officials.

Conclusion - Response accepted.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-08 Financial Condition - The District had deficit unrestricted net assets of \$6,761 in the School Nutrition Fund and the Debt Service fund had a deficit fund balance of \$20,244.

The District had a beginning balance of \$1,008 at July 1, 2007 in the Debt Service Fund. The District received \$24,995 in local and state revenue in the Debt Service Fund. The District also, transferred \$9,978 from the Special Revenue, Physical Plant and Equipment Levy and \$30,000 in local option sales and services tax from the Capital Projects Fund. The total revenue of the Debt Service Fund for the year ended June 30, 2008, was \$64,973. The District paid \$86,225 in bond principal and interest for General Obligation Bonds and Bus Lease payments decreasing the Debt Service Fund by \$21,252.

The current property tax being levied does not appear to be adequate to pay the principal and interest, even with the planned transfers from both, the Special Revenue, Physical Plant and Equipment Levy Fund and the Capital Projects Fund.

Recommendation - The District should continue to investigate the deficits in these funds and develop solutions to eliminate the negative fund balances.

Response - We are aware of the deficits in the Nutrition Fund and the Debt Service Fund and will continue to investigate ways to improve the balances.

Conclusion - Response accepted.